HOUSING MARKET OUTLOOK

Metro Victoria

Canada Mortgage and Housing Corporation

AUTUMN 2006

2007 at a Glance

- ***Victoria's housing markets healthy, buoyed by strong regional economy***
- ***Resale market sales edge down, prices to rise***
- ***New homebuilding to ease in 2007***
- ***New home market to see higher prices***

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RESALE MARKET

Prices to plateau

MLS®[1] average prices are expected to rise in concert with the rate of inflation during 2007, following a slowing of price increases experienced in 2006. Next year, prices are forecast to average $530,000 for houses, $376,000 for townhouses and $290,000 for condo apartments.

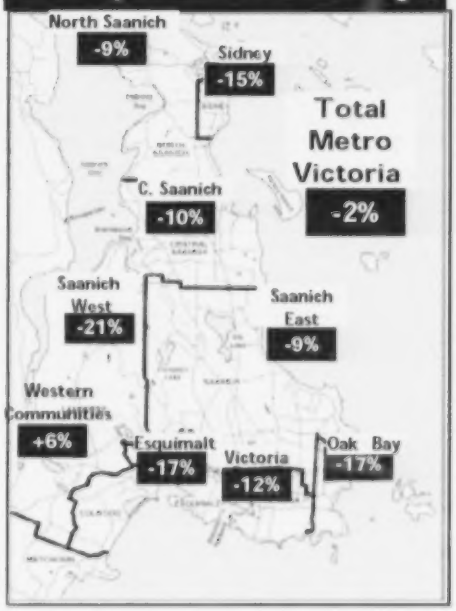
The number of **2006-07 Victoria annual home sales will edge down from 2005 levels**. Fewer transactions are an indication of less speculation, as well as a reflection of higher prices, in 2006's real estate market. The market is shifting into a balance between supply and demand following four years of conditions which favoured sellers.

continued on page 2...

[1] Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

Figure 1

House Sales by Sub-market, Jan.-Sep. 2005-06 (%change)



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60 YEARS ANS

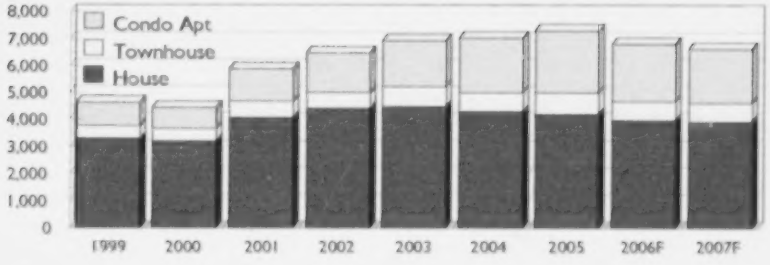
CMHC SCHL
HOME TO CANADIANS

Figure 2

MLS® SALES

METRO VICTORIA

Annual Sales by Type



Source: Victoria Real Estate Board, CMHC Victoria

Single family home sales are forecast to remain just under 4,000 in 2006 and 2007, as slightly fewer buyers are drawn to this market due to high house prices. Condo **apartment and townhouse sales reflect strong demand** for lower-priced homes, with 1,990 apartment and 715 townhouse transactions expected in 2007.

During the first nine months of 2006, Metro Victoria **single family home sales were 8% behind** last year's levels. **West Shore** markets (Langford, View Royal, Sooke, Colwood, Highlands and Metchosin) bucked the trend to fewer house sales, as buyers drove sales higher in these less expensive markets. (see map on page 1 for more details).

Sales in **West Shore** markets are expected to continue outperforming other Capital Region markets as buyers are attracted to the area's expanding amenities, as well as its lower house prices.

Robust demand will drive Victoria's average single family house prices 12% higher in 2006 and a further 3% in 2007. This year, **prices are more than double 2000's average of $251,398.**

At September 2006, single family house listings were up 35% from September 2005's level, easing the strong upward price pressure. Strong employment growth, rising migration and low interest rates are keeping market demand buoyant and the market leans toward favouring sellers.

September 2006's sales-to-active listings ratio was 33%, well below last September's 55%. Year-to-date, the average sale price is up 12%. These figures indicate the single family **house market marginally favours sellers**, but rising listings foreshadow a return to balanced conditions in the last quarter of 2006 and into 2007.

Condo Market Pace Slows

Metro Victoria's **townhouse and apartment condominium sales will remain strong**, edging down in 2006 and 2007 from last year's record levels. Listings in these markets are also increasing, sparking a return to balanced market conditions from the 2002-06 situation which favoured sellers.

Average townhouse **prices are forecast to approach $380,000** next year. During the first nine months of 2006, townhouse sales slipped 15%, active listings grew by one-half, and average prices climbed 6%. A growing number of listings and moderate demand is **decreasing upward pressure on prices**.

Apartment condo prices jumped 44% in the last two years, and will climb to $290,000 in 2007, due in part to more sales of newer suites. The following market indicators confirmed a **sellers' market moving into balance for apartment condos** during the first nine months of 2006: sales dipped 7% from last year's exceptional levels, active listings jumped by 120% and average prices rose 13%.

Esquimalt Houses Lowest Priced In Region

Esquimalt was the only Metro Victoria market with a median house price below $400,000 during third quarter 2006. The median price remained below $500,000 for most other markets, with the exception of areas with more waterview lots and higher land values: **North Saanich, Oak Bay** and **Saanich East**. Next year will see median house prices climb higher in West Shore markets as the proportion of newer, more expensive homes increases.

Figure 3

MLS® House Sales by Market

3rd Quarter 2006, Metro Victoria

	Median House Price	Average Days to Sell	Average Size Sq. Ft.
Victoria City	$439,900	30	1,829
Oak Bay	$869,000	28	2,460
Esquimalt	$392,000	32	1,726
Saanich East	$500,000	33	2,269
Saanich West	$415,000	35	1,851
Central Saanich	$485,000	48	2,529
North Saanich	$599,900	51	2,580
Sidney	$447,000	33	1,773
West Shore	$408,000	42	2,124

Source: Victoria Real Estate Board, CMHC Victoria

NEW HOME MARKET

Homebuilding to Slow

New homebuilding **will approach 2,400 housing starts in 2006, then is expected to dip 10% in 2007.** Apartment condo construction will lead Victoria's new home markets this year, but single-detached houses will take the lead in 2007.

Move-up, move-down and second home purchasers will remain major players in the new home market through 2007 as equity growth in their current homes has risen with the strong resale market in 2003-06. **Investors will play less of a role in 2007**, as price increases slow. **First-time buyers will also be less active** than in the past two years, due to slightly higher mortgage rates and higher home prices.

New House Starts Level

Single-detached house starts are forecast close to **1,000 units annually in 2006-07** as steady buyer demand continues. During the first nine months of 2006, single detached housebuilding is even with last year's pace. Demand for new houses continues to be driven by **strong resale market sales and prices, buoyant consumer confidence, solid employment growth** and **low interest rates**.

The **new house market will remain balanced** as supply keeps pace with demand through 2007. New home **inventories will edge up** as spec building (non-custom houses) expands. However, most new houses are presold before finishing, which will keep the market in balance. **High lot costs, growing development fees** and **escalating insurance, skilled labour and building supply costs** continue to challenge homebuilders.

West Shore markets will dominate the Metro Victoria new house market this year, approaching a **three-quarter share of the region's new houses**. West Shore market share is continuing a long-term growth trend, after taking two-thirds of the 2005 total, up from 59% in 2004 and 54% in 2003. **Langford** is the strongest single municipality for Metro Victoria housebuilding, with a third of all new houses. Major subdivisions are underway in **Sooke**, **View Royal**, **Langford**, **Colwood**, and **Saanich** - several with multi-year buildouts.

New House Prices Climb

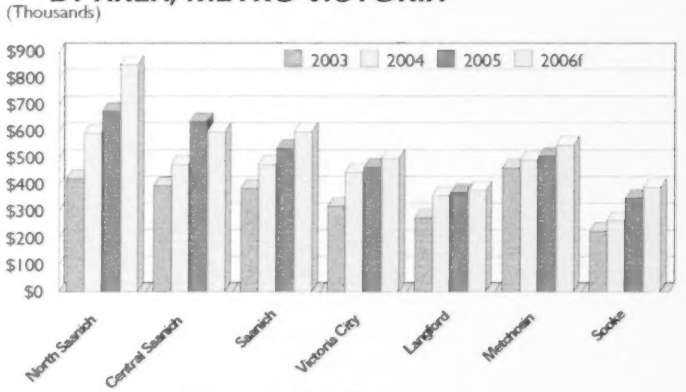
Robust demand and rising building costs are **pushing new house prices higher.** Median new house prices are forecast to rise 8% in 2006 and **a further 3% in 2007**.

A wide selection of new houses will be available through 2007: the growing market for modest homes is **helping to keep median prices in check** despite rapidly rising construction costs.

Some West Shore subdivisions concentrate on lower-priced new houses. Higher-end housebuilding tends to take place in **Saanich, North Saanich, Oak Bay** and on large properties in the **West Shore**.

Figure 4

MEDIAN NEW HOUSE PRICES BY AREA, METRO VICTORIA



Source: CMHC Victoria (250) 363-8040

Robust New Townhouses

New townhouse starts are expected to remain strong through 2007, in response to growing demand. Over the next two years, starts are forecast at 150-165 annually, up from 111 in 2005.

During the nine months of this year, **140 townhouses got underway,** 57% more than during the same period last year. **Inventories of newly completed units remain low**, and demand continues strong.

The new townhouse market is forecast to remain balanced through 2007.

Median **prices are forecast to rise through 2007, with increases of 2-4% annually.** This means next year's **three bedroom townhouse** median price is forecast to reach $368,000.

New Apartment Condo Surges Ahead

New condo apartment **starts will rebound this year**, to 1,020 - close to 2004's reported 1,058. In 2007, new condo construction is expected to cool to 805 starts.

Metro Victoria inventories remain low, with just 17 new apartment condos completed and for sale at September 2006. **The market is now classified as balanced:** despite the large number of units (1,664 at September 2006) under construction, pre-sales are robust. Over three-quarter of these units are reported pre-sold, reflecting strong market demand. Pre-sales are occurring before projects start in some cases and also while projects are under construction.

During the first nine months of 2006, **601 apartment condos were completed and 597 sold**. Strong demand for **luxury** condos, **trendy** downtown units and **modest suburban** suites is driving both sales of new units and presales.

New condo sales by price range reflect **distinct markets for midrange and luxury product: $180-239,999 for one bedroom suites**, followed by **$260-359,999 for luxury product of the same size. For two bedroom units**, the majority fall in the $200-299,999 range but $400,000+ is another popular range.

New condo price movements are influenced by changes in product mix (more lower-priced vs. higher-priced suites) as well as rising construction costs. **Prices are forecast to edge up through 2007** but median new **two bedroom prices are expected to remain below $340,000** during this period.

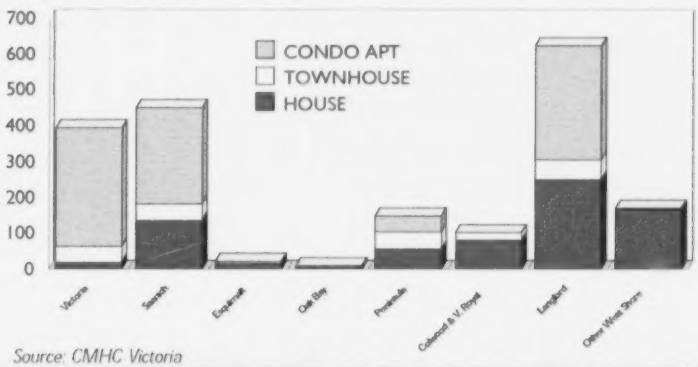
Moderating demand for luxury suites is forecast for 2007 while demand for midrange and affordable units in convenient locations will expand, resulting in a **diverse selection of prices, styles and locations**.

Many new condos will be built on **Victoria City redevelopment sites such as CN Lands, the Railyards, Dockside Green, the Humboldt Valley.** Others will get underway in **Sidney, Central Saanich, Esquimalt, Saanich** and the **West Shore. Langford** will dominate other West Shore markets in 2006-07 new condo construction.

Figure 5

NEW HOUSING STARTS BY TYPE BY AREA, METRO VICTORIA

January-September 2006



Source: CMHC Victoria

Langford, Victoria City lead 2006 homebuilding.

ECONOMY

Economy to Grow

Metro Victoria economic growth will **follow strong BC growth patterns over the next 18 months**, with real GDP close to 3.5% in 2006-07.

Metro Victoria population is forecast to grow 1.1% next year, hitting 377,080. In 2006, **net migration to Victoria is forecast to rise** in concert with B.C. trends, improving to 2,800 from 2,500 in 2005.

Victoria employment growth of 2.8% is forecast each year in 2006-07. Meanwhile, the **unemployment rate** will remain below 4% over the next 18 months.

At mid 2006, the **value of major capital projects** proposed, planned or under construction in Metro Victoria totalled **$5.3 billion**, up from $4.7 billion last year. Major projects **scheduled to get underway in** 2006-07 include **Dockside Green and the CN Lands (Bayview) project.** Developments underway with **multi-year buildouts** include **Victoria International Airport expansion, UVic Expansion, Selkirk Waterway, Bear Mountain Golf Resort, Silver Spray, the Railyards, CFB Esquimalt Improvements, Sun River Estates, Cordova Bay Road** residential and industrial complex and the **Royal Bay Project**.

Growth in **construction, tourism, education, high technology** and **film production** will boost economic expansion through 2007.

Tourism growth of 3% annually was boosted by a sharp increase in cruise ship traffic this year. Next year may see a slight slowing trend as stricter border traffic requirements come into effect for U.S. visitors.

RENOVATION MARKET

RENOVATIONS GROWING

Metro Victoria renovations will continue increasing both dollar value and number of renovations undertaken, during 2006-07.

Strong resale market activity, together with the current popularity of home improvements, are driving renovations higher. Many buyers choose homes based on location, frequently choosing to **purchase and then improve** an existing home instead of buying new. High **development and lot costs** and an **aging housing stock** are pushing this decade's renovations well ahead of levels achieved in the 1990s.

In the first nine months of 2006, **the number of Metro Victoria building permits issued for residential renovations rose 7%** from last year's levels. Strongest permit volume growth was in **Oak Bay, followed by Sidney**, both with permit tally increases topping 25%.

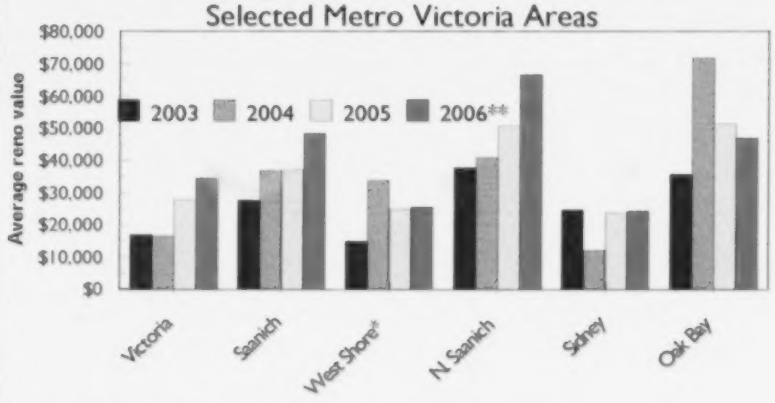
During the same nine month period, renovation values showed a slight dip overall from 2005 levels. **North Saanich** led area markets, with average residential renovation permit values of $66,600. **Saanich** and **Oak Bay** had the next highest values, averaging $47,800-$48,200. Average permit values in **other area markets ranged from $24,200 through $41,500.**

Higher costs for materials and labour, as well as a trend to larger projects, is reflected in rising renovation spending. **Exterior projects** such as decks and additions are most popular with area homeowners, followed by **secondary suites**, **home offices**, and **media rooms**, as well as more traditional **kitchen and bathroom renos**.

Figure 6

Average Renovation Values

Selected Metro Victoria Areas



*Includes Colwood, Langford, Sooke, Metchosin
**2006 YTD Jan.-Sept. SOURCE: Municipal Building Permit Reports

MORTGAGE RATES HAVE PEAKED

While rates remain low by historical norms, they have been creeping up in 2006 and will edge down slightly in 2007. One, three and five-year posted rates are forecast in the 5.50-6.50, 5.75-6.75 and 6.00-7.00 per cent ranges in 2007.

MORTGAGE CARRYING COSTS RISING

The forecast average home price increase, together with higher mortgage rates than in 2005, indicate higher **qualifying income** is needed to purchase a home. In 2007, qualifying income required for purchase of an average-priced house **will hit a new high** of $134,028, from $131,762 in 2006.

Metro Victoria homebuying qualifying income calculations are based on actual interest rates, MLS® average house prices to 2005 and CMHC forecasts for 2006-07 (see page 6 for details).

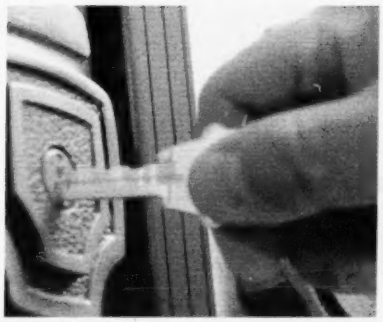
CMHC FORECAST SUMMARY

Victoria Metropolitan Area

October 2006

RESALE MARKET	2004	2005	2006F	2007F	Chg
MLS® Listings	10,329	10,407	12,300	11,800	-4.1%
MLS® Sales					
Single-family	4,285	4,214	3,980	3,920	-1.5%
Townhouse	714	801	705	715	1.4%
Condo Apartment	2,018	2,279	2,120	1,990	-6.1%
TOTAL	*7,017*	*7,294*	*6,805*	*6,625*	*-2.6%*
MLS® Price					
Single-family	$386,045	$463,399	$515,000	$530,000	2.9%
Townhouse	$299,275	$345,095	$365,000	$376,000	3.0%
Condo Apartment	$216,661	$251,655	$280,500	$290,000	3.4%
NEW HOME MARKET					
Starts					
Total	2,363	2,058	2,380	2,140	-10.1%
Single-family	1038	974	1010	995	-1.5%
Semi	141	94	145	140	-3.4%
Townhouse	122	111	165	150	-9.1%
Condo Apartment	1058	856	1020	805	-21.1%
Rental	4	23	40	50	25.0%
Complete & unoccupied (monthly average)					
Total	96	112	120	138	15.0%
Single-family & Semi	59	63	85	88	3.5%
Townhouse	15	18	10	15	50.0%
Condo Apartment	22	31	25	35	40.0%
Median New Home Price					
Single-family	$399,000	$478,950	$519,000	$535,000	3.1%
3 Bed. Townhouse	$334,900	$344,900	$359,000	$368,000	2.5%
2 Bed. Condo Apt	$284,900	$339,900	$330,000	$337,000	2.1%
RENTAL MARKET					
Vacancy Rate (Oct.)	0.6%	0.5%	0.8%	1.2%	
% Increase in apartment rents	1.7%	4.5%	3.9%	3.7%	
ECONOMIC OVERVIEW					
Mortgage Rate (3 yr.)	5.65%	5.59%	5.75-6.75%	5.75-6.75%	
Employment Growth	2.5%	4.4%	2.8%	2.8%	
Net Migration	2,200	2,500	2,800	2,675	

F = CMHC Forecast



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